

Chapter 8

Level I

E8.7 *Time allowed – 30 minutes*

Sweet Inspiration Ltd is a small, specialist manufacturer of chocolate bars, which are sold through a number of its retail outlets. The business has budgeted to make 6,000 chocolate bars during a standard month, and maintain a stock of 200 bars at the end of each month. Manufacturing costs budgeted to be incurred by Sweet Inspiration during the month are:

	£
Promotion and marketing costs	5,000
Chocolate bar ingredients	3,200
Operators' wages	10,300
Factory manager's salary	2,000
Chocolate bar packaging	4,000
Administrative and accounting costs	1,000

- (i) Prepare a list of the above costs and classify them between variable costs and fixed costs for the period.**
- (ii) Outline the approaches that may be taken to valuation of the stocks of chocolate bars at the end of the month, supported by appropriate calculations.**

E8.8 *Time allowed – 60 minutes*

One part of Little Sweep Ltd's business services boilers and stoves and it currently has contracts with 100 customers to provide an annual service for which they pay a fixed annual subscription. Little Sweep Ltd is planning to buy some servicing machinery that has a normal life of three years and the company depreciates its machinery using the sum of the digits method. Little Sweep Ltd expects the costs to be as follows:

	£
Machinery cost	25,000
Machinery estimated resale value after 3 years	1,000
Replacement parts estimated to be required four times a year	600
Maintenance costs required twice a year	700
Other running costs per annum	3,400

- (i) Prepare a table of costs for the twelve quarters of the life of the machinery, separately identifying fixed costs and variable costs.**
- (ii) Calculate the average cost for each customer service on a marginal cost basis for each year.**
- (iii) Calculate the average cost for each customer service on a full (absorption) cost basis for each year.**
- (iv) Report on the relevance of the split of costs with regard to the prices that should be charged to customers for an annual service, and any problems that may arise out of Little Sweep's depreciation policy.**